

Royalty-in-Kind Pilot
for Natural Gas from
Federal Leases in the Gulf of Mexico

- Investigation of taking the federal share of mineral royalties as a share of the actual product (royalty in kind or RIK) is an innovative, but unproven, approach to DOI's responsibilities that has been under active consideration by MMS since 1994.
- An MMS 1997 Feasibility Study concluded that, under the right conditions, RIK could be workable, revenue positive, and administratively more efficient for government and industry. The study also concluded that a mandatory across-the-board RIK program would reduce Federal royalty revenues.
- Pursuant to the 1997 study's recommendations, MMS is developing and implementing a pilot program to take natural gas royalties from federal leases in the Gulf as a share of production (i.e., "in-kind" rather than "in-cash") and subsequently sell that gas in the open market.
- The objectives of this pilot program are to test the propriety of the RIK concept for collecting federal gas royalties.
- The RIK pilot for gas from federal offshore leases in the Gulf of Mexico Region is to be in place by Fall, 1999. This pilot will involve the largest production volumes of the 3 planned pilots, and will last at least 3 years.
- In addition to the Gulf of Mexico project, MMS is developing at least two other RIK pilot programs based on the recommendations in the MMS 1997 RIK Feasibility Study. They are an offshore natural gas RIK pilot in the 8(g) waters off Texas, and a pilot of crude oil from federal leases in Wyoming.
- Involvement of other federal agencies in the pilots is being considered as well.
- The following criteria have been established for evaluating the success of the 3 RIK pilots:
 - simplicity, accuracy, certainty for lessees and government;
 - revenue neutral (or better) for government;
 - reduced administrative burden for lessees and government; and
 - consistency with terms of existing leases.